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SUBJECT: ARMENIA'S OLIGARCHS: STAYING RICH ON FOOD, GAS, AND CIGARETTES

Refs: A) Yerevan 1456 B) 03 Yerevan 2975 C) Yerevan 777

1. (U) Sensitive but unclassified. Please protect accordingly.

SUMMARY

2. (SBU) Trade in the most basic goods in the Armenian economy is controlled by a small number of oligarchs with strong ties to government. While it is considered common knowledge that oligarchs use political power and their dominant market position to keep competitors at bay, there is little political will to investigate or regulate these businesses under Armenia's competition law. The government's fledgling State Commission for Protection of Economic Competition (the Commission) is not yet strong enough to successfully tackle the goliaths who control basic commodities. The Commission has taken on small cases and the unpopular Armentel telephone monopoly (ref A), Armenian consumers and would-be competitors are the losers as basic goods remain subject to the control of a few. Until the GOAM is willing to address the corruption throughout government which allows the oligarchs to control their markets, they will continue to gouge Armenia's most vulnerable consumers, the poor. End Summary.

OLIGOPOLIES IN FOOD, GAS AND CIGARETTES

3. (SBU) While the empires controlled by Armenia's oligarchs are insignificant when compared to those in Russia, they have managed to amass impressive holdings by controlling access to basic goods, like wheat, sugar, salt butter, gasoline, beer and cigarettes (ref B). Key to their ability to control much of the supply of these staple goods are close relationships with powerful government actors. A single importer, Samvel Aleksanian (aka Lfik Samo) controls 90 percent of sugar imports, nearly all butter imports and a large sector of the grain market. Areg Ghukasian, a National Assembly member and brother of Nagorno-Karabakh's "president," controls all the salt sold in Armenia. Wheat, which is the most important commodity in the consumer price basket, is controlled by three major players: Gagik Tsaroukian (aka Dodi Gago, a National Assembly member and

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Armenia's best-known oligarch), Samvel Aleksanian, and Mikhail Bagdasarov, a friend of Serzh Sargsian, the powerful Minister of Defense. Close friends of Sargsian, including Bagdasarov, control nearly all the competing interests in the gasoline market.

COMPETITION COMMISSION STILL LEARNING TO WALK

4. (SBU) The Commission was created in January 2001 to address the undeniable de facto monopolies of the oligarchs, but clearly lacks the clout or political support to take on the major "crony capitalists." Pavel Ghaltakhchyan, Deputy Chair of the Commission is quick to point out that his is a young agency (the age of its members notwithstanding). Charged to enforce Armenia's competition law, the Commission members lack authority to request information from other government agencies and to inspect business records. Commission members also point to their lack of practical experience in competition policy and enforcement. Even though its decisions are subject to judicial review, the Commission has no lawyer. While the activity of the Commission has nonetheless increased, it has enforced no decision involving wheat, gas, sugar, or poultry, despite widely publicized recent prices increases and pressure from critics.

OTHER GOVERNMENT AGENCIES PROTECT OLIGOPOLIES

15. (SBU) The ultimate capacity of the Commission to deliver a competitive market in the goods dominated by oligarch traders is severely limited by the Commission's weakness vis-a-vis other government agencies. Among the government entities instrumental in preserving the oligopolies is the Customs Committee. For dominant importers, it appears that Customs lets imports pass under the table: official imports of gasoline have inexplicably declined over the last three years despite double digit growth in GDP and increasing traffic. New market entrants can expect much worse treatment. Commissioner Hrayr Aramyan told us that if a new company sought to import sugar, for example, "Customs might not let it in, or might hold it in storage for a long time." (Note: The Embassy knows of two cases where Customs wrongly held a market entrant's shipment of wheat until it rotted. End Note.) Aramyan pointed out that in such a case the shipper would complain to Customs, rather than to the Commission, as the dominant importer cannot be liable for an illegal act of Customs except in the unlikely event the Commission could prove that there was an arrangement between the two.

COMMENT: CORRUPTION MUST END FIRST

16. (SBU) The creation of the Commission was only a first step in solving Armenia's competition problems. In most cases the oligopolies' competitive advantage lies in a cozy relationship with some other government agency, and the government overall lacks the political will to challenge the oligarchs' control over markets. The uncompetitive environment in Armenia's basic goods is as much a question of corruption in government -- especially Customs -- as it is of abuse of dominant position or anti-competitive agreements between private companies. We believe that reform of the Customs administration and a change in Armenian cultural tolerance to a certain level of corruption, rather than a European-style competition law, that will eventually reduce barriers to entry in Armenia's markets.
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